

RETIREE HEALTHCARE FAQ'S

Q: Is the City going to take away retiree healthcare benefits?

A: **No** determination has been made to eliminate retiree healthcare benefits.

The City is exploring methods to address the high cost of providing retiree healthcare benefits and will be discussing those options with stakeholders.

It is important to note that any proposed changes to retiree healthcare benefits for employees must be discussed as part of the negotiation process with the City's bargaining unit representatives.

Q: I've heard the City is increasing the eligibility for retiree healthcare to 25 years. Is this true?

A: Although changes to the eligibility requirements are an option to consider, current eligibility requirements have not been changed.

Q: If I retire now, will my healthcare benefits change or be taken away?

A: The City has not made any decision to change healthcare for current retirees.

Q: Why can't the City leave benefits the same for current employees and reduce the benefit just for future employees?

A: The City has not made any decision to change healthcare benefits for any segment of the employee population.

Changing benefits only for new hires is one of many options. However, changing benefits only for new hires does not change the cost of paying for the benefits of current retirees and current employees.

Q: When will a decision be made about retiree healthcare?

A: The City, employees and retirees must collaborate to develop solutions to the costs of these benefits. This will take time and there will be further communications and opportunities for input.

Q: Isn't money being set aside now to pay for retiree healthcare?

Yes. The City and employees pay for the cost of retiree medical insurance, and the cost is split 50/50. However, the current contributions are not enough to meet the long term costs of the benefit.

Q: *What is GASB?*

A: The Governmental Accounting Standards Board (GASB) is the private, nonprofit organization that works to create and improve the accounting rules federal, state and local governments follow when calculating and reporting financial information.

Q: *Who is affected by GASB Statements 43 and 45?*

A: All government entities that offer retiree healthcare benefits are affected. GASB Statement 43/45 will require the City to reflect the cost of Other Post Employment Benefits, such as retiree healthcare. The City is required to comply with GASB 43/45 in fiscal year 2007/08

Q: *What are the basic requirements of GASB 43/45?*

A: GASB requires the following:

- Account for retiree healthcare benefits in a manner similar to pensions
- Provide financial information regarding:
 - Calculations by an actuary of the normal cost for these benefits, the future normal costs and the costs associated for past service
 - The annual required contribution (ARC) and its impact on the total cost of government services
 - Progress made (or not made) in funding the annual required contribution

Q: *Why is the City raising the issue of the retiree healthcare liability now?*

A: The Government Accounting Standards Board (GASB) issued new guidelines regarding how government agencies should account for liabilities associated with the cost of providing retiree healthcare. These guidelines do not require the City to fund the benefit, but they do require us to report any liability that results from the City not pre-funding retiree healthcare in the same way we do our retiree pension benefit.

Q: *What is an unfunded liability?*

A: When an actuary develops an estimate of the retiree healthcare liability pursuant to GASB 43/45, the actuary estimates the Actuarial Accrued Liability. The Actuarial Accrued Liability is the estimated total long-term liability to provide the retiree healthcare for current retirees as well as the estimated costs of providing these benefits to current employees when they retire. After taking into

account any existing assets that have been set aside to pay these benefits, the actuary estimates the total Unfunded Actuarial Accrued Liability, or UAAL. The UAAL is the amount of extra money that would need to be set aside today and invested to cover the future costs of benefits earned to date by employees.

Q: How much money needs to be set aside to pay for the retiree healthcare liability?

A: The Annual Required Contribution includes the amount that needs to be set aside and invested in order to fund future retiree health benefits earned during that year by active employees, and the amount estimated to be sufficient to retire existing unfunded liabilities over no more than 30 years.

Currently, the retiree healthcare liability is estimated to be as high as \$1.65 billion and the Annual Required Contribution is \$134.4 million.

Q: Where can I get a copy of the memo to the City Council on Retiree Healthcare?

A: Click [here](#) for a copy of the memo.

For further questions, please email employee.relations@sanjoseca.gov or call 535-8150.